

Message Text

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ACTION ARA-14

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 XMB-02 /142 W
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R 142100Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7125
INFO USMISSION GENEVA
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY ASUNCION
AMEMBASSY BUENOS AIRES
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AMCONSUL RIO DE JANEIRO
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LIMITED OFFICIAL USE SECTION 1 OF 3 BRASILIA 3058

DEPARTMENT PASS TREASURY AND AGRICULTURE

GENEVA FOR USMTN

PARIS FOR USOECD ALSO EMBASSY

BRUSSELS FOR USEEC

E.O. 11652: N/A
TAGS: EAGR, BR
SUBJECT: REVISED AGRICULTURAL PRODUCTION AND TRADE FORECASTS

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REF: (A) BRASILIA 1526, (B) BRASILIA 2137, (C) BRASILIA
2367, (D) TOFAS 92, (E) SAO PAULO 0786

1. SUMMARY. AS PREVIOUSLY REPORTED (REFTEL C), MAJOR
CROP LOSSES AND LOWER WORLD MARKET PRICES FOR COFFEE WILL
ADVERSELY AFFECT BRAZIL'S FOREIGN TRADE BALANCE AND
COMPLICATE THE FIGHT AGAINST INFLATION. REVISED

MISSION ESTIMATES INDICATE THAT AGRICULTURAL EXPORTS MAY BE OFF THIS YEAR BY \$1 BILLION OR MORE FROM 1977 LEVELS. AGRICULTURAL IMPORTS, ON THE OTHER HAND, ARE EXPECTED TO INCREASE SOME \$300-350 MILLION. UNDER THESE CIRCUMSTANCES, IT IS QUESTIONABLE WHETHER BRAZIL WILL BE ABLE TO MAINTAIN A ROUGH BALANCE IN ITS TRADE ACCOUNT, ALTHOUGH MUCH WILL DEPEND ON THE PERFORMANCE OF ITS MANUFACTURED EXPORTS (OTHER THAN SEMI-OR FULLY-PROCESSED AGRICULTURAL PRODUCTS). IN 1977, EXPORTS OF THIS GROUP ROSE BY CLOSE TO 30 PERCENT OR \$800 MILLION (A PACE SUSTAINED IN THE FIRST TWO MONTHS OF 1978). IF THIS PERFORMANCE CAN BE DUPLICATED THIS YEAR, BRAZIL MAY JUST CONCEIVABLY MAINTAIN A ROUGH TRADE BALANCE; MORE LIKELY, BRAZIL WILL RECORD A MODES DEFICIT. THE GOB WILL MAKE EVERY EFFORT TO AVOID ANY SERIOUS DETERIORATION IN THE TRADE ACCOUNT. INCREASES IN FOOD PRICES ARE EXPECTED TO REMAIN NEAR 1977 LEVELS, IF PRESENT TRENDS CONTINUE. (CONGENS RIO AND SAO PAULO HAVE BEEN CONSULTED ON THIS ASSESSMENT, AND CONCUR IN THIS MESSAGE.)
END SUMMARY.

2. A NUMBER OF FACTORS ARE CONTRIBUTING TO SHARPLY REDUCED 1978 OUTPUT OF SOYBEANS, CORN, RICE, COTTON, BEANS AND A WIDE VARIETY OF HORTICULTURAL PRODUCTS. UNFAVORABLE WEATHER, HOWEVER, HAS CLEARLY BEEN THE LIMITED OFFICIAL USE

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DECISIVE ELEMENT. A COMBINATION OF UNUSUALLY HIGH TEMPERATURES AND IRREGULAR BUT GENERALLY INADEQUATE RAINFALL SINCE MID-DECEMBER, 1977 IN THE PRINCIPAL AGRICULTURAL AREAS OF SOUTHERN BRAZIL HAS CUT CROP YIELDS.

3. OTHER SIGNIFICANT FACTORS BEHIND THE PRODUCTION DECLINE ARE: A) GOB MINIMUM PRICE POLICIES WHICH DISCOURAGED PLANTING OF SEVERAL CROPS, PARTICULARLY CORN; B) THE OVERALL CUTBACK IN GOVERNMENT ASSISTANCE TO AGRICULTURE IN 1977 FROM THE EARLY YEARS OF THE GEISEL ADMINISTRATION, REFLECTED IN PRODUCTION CREDIT REDUCTIONS AND LOWER ALLOCATION OF RESOURCES TO A WIDE VARIETY OF AGRICULTURAL DEVELOPMENT ACTIVITIES; AND C) SHARPLY HIGHER BEEF PRICES IN LATE 1977 WHICH SLOWED THE CONVERSION OF NATURAL PASTURES TO CROPLAND. MUCH OF THE RAPID INCREASE IN THE PLANTED AREA IN BRAZIL IN RECENT YEARS HAS BEEN THE RESULT OF FAVORABLE CROP PRICES, PARTICULARLY FOR SOYBEANS, RELATIVE TO BEEF.

4. THE EXACT MAGNITUDE OF THE CROP LOSSES DUE TO

UNFAVORABLE WEATHER AND OTHER FACTORS IS NOT KNOWN
AT THIS TIME BECAUSE THE HARVEST OF MOST CROPS IS
ONLY PARTIALLY COMPLETED. THE MINISTRY OF
AGRICULTURE CROP REPORTING SYSTEM HAS BEEN IMPROVED
IN RECENT YEARS BUT IS STILL INADEQUATE FOR MOST

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R 142100Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7126
INFO USMISSION GENEVA
AMEMBASSY BRUSSELS
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CROPS. EVALUATING THE CROP SITUATION THIS YEAR HAS
BEEN PARTICULARLY DIFFICULT BECAUSE RAINFALL HAS
VARIED WIDELY WITHIN THE SAME GENERAL AREA.

5. BASED ON FIELD TRIP OBSERVATIONS, DETAILED REPORTS
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FROM CONSTITUENT POSTS, MINISTRY OF AGRICULTURE ESTI-
MATES AND INFORMATION FROM A VARIETY OF TRADE SOURCES,
AGATT CURRENT ESTIMATES OF 1978 PRODUCTION ARE SHOWN
BELOW:

CROP	1977	1978
PRODUCTION 1,000 MT		
RICE, PADDY	8,000	7,500
CORN	18,800	15,00
SOYBEANS	12,000	9,700-10,200
COTTON	566	465
SUGAR	8,100	8,000

PRODUCTION OF ORANGES AND TOBACCO, BOTH IMPORTANT
EXPORT ITEMS WAS NOT AS SERIOUSLY AFFECTED BY THE
DRY WEATHER. THE MAIN COMMERCIAL PRODUCING REGIONS
FOR THESE COMMODITIES ARE OUTSIDE THE MOST SEVERELY
AFFECTED AREAS.

6. REPORTS FROM PRODUCERS INDICATE MUCH HIGHER DROUGHT
LOSSES FOR CERTAIN CROPS. AGATT BELIEVES THIS SITUATION
REFLECTS NATURAL ENDENCY OF PRODUCERS TO TALK UP
LOSSES TO ENHANCE THEIR BARGAINING POSITION WITH BUYERS
AND HELP JUSTIFY LARGER PAYMENTS UNDER GOB CROP
INSURANCE PROGRAM PROAGRO.

7. AGATT STAFF IS VISITING ALL MAJOR COFFEE
PRODUCING AREAS APRIL 10-21. ESTIMATE OF 1978-79
COFFEE HARVEST WHICH WILL BEGIN IN LATE APRIL WILL
BE MADE UPON COMPLETION OF THAT FIELD TRIP. THE
BRAZIL COFFEE INSTITUTE (IBC) HAS NOT REVISED INITIAL
1978-79 CROP FORECAST OF 20.7 MILLION 60 KG/BAGS.
AGATT PRELIMINARY FORECAST OF 1978-79 CROP MADE AFTER
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DECEMBER 1977 FIELD TRIP TO ALL COFFEE AREAS WAS
21-23 MILLION BAGS. PARANA COFFEE TREES REPORTEDLY
HARDEST HIT BY DROUGHT AND TRADE REPORTS ESTIMATE
LOSS OF PRODUCTION OF UP TO 20-25 PERCENT FOR 1978-79
HARVEST. AGATT CONSIDERS SUCH A LOSS ESTIMATE HIGH (SEE ALSO
REF E).

8. CY 1977 EXPORTS OF SELECTED AGRICULTURAL COMMODI-

TIES AND PRELIMINARY FORECASTS OF 1978 EXPORTS ARE SHOWN BELOW. THE FORECASTE EXPORT VALUE DECLINE IS SHARPEST FOR COFFEE AND REFLECTS WORLD PRICES LOWER THAN IN 1977 AND LOWER THAN PREVIOUSLY ANTICIPATED FOR 1978 (REF A) RATHER THAN LOWER EXPORT AVAILABILITY. BRAZIL'S COFFEE STOCKS ARE CURRENTLY ESTIMATED AT 15 MILLION BAGS. THE IBC COFFEE EXPORT GOAL FOR 1978 IS 12 MILLION BAGS AND THE EXPORT VALUE SHOWN BELOW IS BASED ON THIS LEVEL. IF THE BRAZILIAN WINTER PASSES WITHOUT A FREEZE IN THE COFFEE AREAS, EXPORT EARNINGS FROM COFFEE COULD, HOWEVER, FALL TO \$2.0 BILLION DUE TO A FURTHER DECLINE IN PRICES.

COMMODITY	1977 EXPORTS	1978 FORECAST
MILLION DOLLARS		
COFFE 2/	2,642	2,000 - 2,200
SOYBEANS AND PRODUCTS 3/	2,141	1,500
COCOA AND PRODUCTS	775	750
SUGAR	462	450
CORN	137	1/
RICE	83	1/
COTTON	41	1/

1/ ONLY SMALL QUANTITIES EXPECTED TO BE EXPORTED.

2/ COFFEE EXPORTS ESTIMATED AT 12 MILLION BAGS AT \$1.40 PER POUND, OR LESS, IF PRICES SHOULD DECLINE FURTHER AFTER BRAZIL'S FROST SEASON PASSES.

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3/ SOYBEAN EXPORTS ESTIMATED AT 1 MILLION TONS AT A PRICE OF \$248 PER TON. SOYBEAN MEAL EXPORTS ESTIMATED AT 4.78 MILLION TONS AT A PRICE OF \$200 PER TON. SOYBEAN OIL EXPORTS ESTIMATED AT 480 THOUSAND TONS AT \$559 PER TON.

9. AGRICULTURAL IMPORTS IN 1978 ARE EXPECTED TO INCREASE SOME \$300-\$350 MILLION FROM THE 1977 LEVEL. THE GOB HAS SO FAR AUTHORIZED IMPORTS OF 4.2 MILLION TONS OF WHEAT, 1.0 MILLION TONS OF CORN AND 100,000 TONS OF BEEF FOR DELIVERY IN 1978.

10. THE IMPLICATIONS OF THESE REVISED ESTIMATES FOR BRAZIL'S TRADE ACCOUNT ARE SHOWN IN THE TABLE BELOW.

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R 142100Z APR 78
FM AMEMBASSY BRASILIA
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DEPARTMENT PASS TREASURY AND AGRICULTURE

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BRAZIL'S TRADE ACCOUNT (U.S. DOLS BILLION F.O.B.)
1976 1977 1978 PROJECTIONS
ACTUAL PRELIMINARY REF A CURRENT
EXPORTS
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AGRICULTURAL	6.0	7.3	7.2	5.9 - 6.3
COFFEE	2.4	2.6	2.8	2.0 - 2.2
SOYBEANS 1/	1.8	2.1	1.9	1.5
ALL OTHERS 2/	1.8	2.6	2.5	2.4 - 2.6

MINERALS	1.1	1.0	1.0	1.0
IRON	1.0	0.9	0.9	0.9
OTHER	0.1	0.1	0.1	0.1
INDUSTRIAL 3/	3.0	3.8	4.6	4.5 - 4.7
TOTAL	10.0	12.1	12.8	11.4 - 12.0
IMPORTS 4/	12.3	12.0	12.4	11.8 - 12.4
TRADE BALANCE (2.1)	0.1	0.4	(1.0)	- 0.2

1/ INCLUDES BEANS, CAKES, AND OIL.

2/ INCLUDES SEMI- AND FULLY-PROCESSED PRODUCTS SUCH AS COCOA BUTTER, ORANGE JUICE, PROCESSED BEEF, AND ASSORTED VEGETABLE OILS AND FRUIT JUICES.

3/ EXCLUDES ITEMS REFERRED TO IN FOOTNOTE 2. CURRENT 1978 PROJECTIONS IMPLY GROWTH OF 18-24 PERCENT.

4/ FIGURE FOR 1976 IS REVISED SINCE EARLIER REPORTING.

CURRENT 1978 PROJECTIONS REFLECT FACT THAT SUBSTANTIAL PORTION OF IMPORTS IS CONTROLLED BY PUBLIC SECTOR AND THEREFORE LEVEL CAN (AND PROBABLY WILL) BE COMPRESSED WITHIN REASONABLE LIMIT (I.E., HELD TO NO GROWTH FOR THE FOURTH CONSECUTIVE YEAR) THROUGH DEFERRAL OF PURCHASES AND DRAWDOWN OF STOCKS (SUCH AS PETROLEUM) IN ORDER TO AVOID LARGE TRADE DEFICIT.

11. THE CHANGE IN THE PROJECTION OF AGRICULTURAL EXPORTS IN 1978 FROM THOSE IN REF A IS DOLS.9 - 1.3 BILLION. LOWER COFFEE PRICES ACCOUNT FOR DOLS 600-800 MILLION, AND A REDUCTION OF EARNINGS FROM SOYBEANS FOR DOLS 400 MILLION. THE CONTINUED IMPORTANCE OF THE LIMITED OFFICIAL USE

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ASSUMPTIONS ON COFFEE AND SOYBEAN PRICES AND THE EFFECT OF THE DROUGHT ON THE SOYBEAN CROP CONTRIBUTE TO THE CONSIDERABLE UNCERTAINTY THAT EXISTS WITH RESPECT TO BRAZIL'S TRADE ACCOUNT IN 1978 (REFTEL C).

12. THE REVISED ESTIMATES YIELD NEW EXPORT PROJECTIONS OF DOLS 11.4 - 12.0 BILLION AND A TRADE ACCOUNT LYING IN THE RANGE OF MINUS DOLS 1.0 BILLION AND PLUS DOLS 200 MILLION. CLEARLY, EVEN UNDER FAVORABLE CONDITIONS, IT APPEARS THAT BRAZIL WILL FACE AN UPHILL STRUGGLE AVOIDING A MODEST TRADE DEFICIT. IN THE FINAL ANALYSIS, THIS WILL DEPEND ON THE EXPORT PERFORMANCE OF INDUSTRIAL GOODS AND THE ABILITY OF THE GOVERNMENT TO COMPRESS IMPORTS. IF LAST YEAR'S PERFORMANCE IN INDUSTRIAL EXPORTS CAN BE DUPLICATED, AND IMPORTS COULD BE HELD TO LAST YEAR'S LEVEL, BRAZIL MIGHT BE ABLE TO MAINTAIN AN APPROXIMATE BALANCE IN ITS TRADE ACCOUNT; MORE LIKELY BRAZIL WILL RECORD A MODEST TRADE DEFICIT. THE GOB, OF COURSE, WILL MAKE EVERY EFFORT TO MAINTAIN

A ROUGH BALANCE OR KEEP THE DEFICIT AS SMALL AS POSSIBLE,
AND HAS MANY MEANS AT ITS DISPOSAL TO PURSUE THIS OBJECTIVE.

13. IN RECENT WEEKS DOMESTIC PRICES OF SOYBEANS AND
PRODUCTS, CORN, RICE, BEANS AND A NUMBER OF HORTICULTURAL
PRODUCTS HAEVE INCREASED SHARPLY, REFLECTING CROP
LOSSES. DURING 1977 FOOD INFATION WAS ESTIMATED
AT 43.9 PERCENT. IMPORTATION OF CERTAIN FOOD PRODUCTS
WILL AMELIORATE THE UPWARD P
ESSURE ON DOMESTIC PRICES
BUT, GIVEN THE DELAYS AND DISTRIBUTION BOTTNECKS
AND PREVAILING WORLD PRICES FOR CROPS SUCH AS CORN,
IT NOW APPEARS LIKELY THAT FOOD INFLATION IN 1978
MAY REMAIN NEAR THE 1977 LEVEL.
JOHNSON

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